Further macro-financial assistance to Ukraine

2018/0058(COD) - 09/03/2018 - Legislative proposal

PURPOSE: to provide additional macro-financial assistance to Ukraine to support economic stabilisation and structural reforms.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: relations between the European Union and Ukraine continue to develop within the framework of the European Neighbourhood Policy and the Eastern Partnership. An **Association Agreement between the Union and Ukraine**, including a Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017.

Since spring 2014, Ukraine has embarked on an ambitious reform programme aiming to stabilise its economy and improve the livelihoods of its citizens.

In addition to its political support, **the Union pledged over EUR 11 billion financial package in March 2014** to support economic stabilisation and reform implementation in Ukraine, including 1.6 billion of macro-financial assistance pursuant to Council Decision 2002/639/EC, Decision No 646/2010/EU of the European Parliament and of the Council and pursuant to Council Decision 2014/215/EU.

In view of Ukraine's substantial external financing needs, an additional EUR 1.8 billion of macro-financial assistance (MFA) was made available to the country in April 2015 pursuant to Decision (EU) 2015/601 of the European Parliament and of the Council.

Since May 2014, Ukraine has received EUR 2.81 billion of macro-financial assistance from the Union, including EUR 1.2 billion out of the EUR 1.8 billion available under Decision (EU) 2015/601.

Ukraine fulfilled 17 of the 21 policy commitments attached to the third tranche of **EUR 600 million** that could have been made available to Ukraine under the third MFA operation. Although four measures were not implemented by the time the availability period of the assistance expired in January 2018. Under these circumstances, the **Commission was not in a position to disburse the last tranche under the third MFA operation**.

Given that a residual external financing gap remains in Ukraine’s balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Ukraine is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine’s request for support to its economic stabilisation, in conjunction with the IMF programme.

The Union’s macro-financial assistance would support the economic stabilisation and the structural reform agenda of Ukraine, supplementing resources made available under the IMF’s financial arrangement.

CONTENT: under the proposed Decision, the European Union shall make **MFA available to Ukraine for a total amount of up to EUR 1 billion, provided in the form of medium- to long-term loans**.

The objective of the proposed AMF is to:

- **help Ukraine cover part of its additional external financing needs in 2018-2019**, reducing the economy’s short-term balance-of-payment and fiscal vulnerabilities;
- **provide incentives to step up Ukraine's reform efforts** by agreeing with the Ukrainian authorities a Memorandum of Understanding setting out an appropriate package of measures supporting economic adjustment and structural reforms.

The assistance is planned to be disbursed in **two loan instalments**. Provided the policy measures attached to each tranche have been implemented in a timely manner, the first instalment is expected to be disbursed in the second half of 2018, while the second instalment could be released in the first half of 2019.

All disbursements under the proposed programme, including the first, would be conditional on the implementation of reform measures designed to address vulnerabilities identified in the Ukrainian economy. These reforms, established in a Memorandum of Understanding, will have to take into account the measures of the previous MFA operation that have not yet been implemented, namely the establishment of a system for verifying asset declarations of public officials and a verification of data to be provided by companies on their beneficial owners. The issue wood export ban shall also be examined.

The MFA may only be completed if major reforms in the fight against corruption and governance are well implemented.

In addition, the Memorandum for the new programme will also include other measures to be implemented by Ukraine in order to receive the first and second disbursement. These will comprise actions in the area of public finance management.

BUDGETARY IMPLICATION: the planned assistance would be provided in the form of loans and should be financed through borrowing operations that the Commission will conduct on behalf of the EU. The budgetary costs of the assistance will correspond to the **provisioning, at a rate of 9%, of the amounts disbursed into the guarantee fund for external lending of the EU**, from budget line 01 03 06 (“Provisioning of the Guarantee Fund”).

Assuming that the first loan disbursements will be made in 2018 for a total amount of EUR 500 million and the second loan disbursement in 2019 for the amount of EUR 500 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the budgets for 2020 (EUR 45 million) and 2021 (EUR 45 million).

The total impact on expenditure is estimated at **EUR 90.997 million** for the period 2017-2021.